

MINUTES OF THE CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

July 13, 1999

The Capital Projects and Bond Oversight Committee met on Tuesday, July 13, at 1:00 PM, in Room 125 of the Capitol Annex. Representative Jodie Haydon, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Jodie Haydon, Chairman; Senator Bob Leeper, Vice Chairman; Senators Tom Buford and Bob Jackson; Representatives Robert Damron, Paul Marcotte, and Jim Wayne.

Guests testifying before the Committee: Michael Hardy, Center for the Arts; Secretary Allen Rose, Commissioner Margaret Whittet, and Ron Holland, Cabinet for Workforce Development; Mike Denney and Bob Little, Kentucky Lottery Corporation; Nick Schwendeman, Administrative Office of the Courts; David Butler, Alliance Corporation; Michael O. Buchanan and Mike Caudill, Warren County Fiscal Court; Ken Clevidence, University of Kentucky; Bill Hintze, Governor's Office for Policy and Management; Mike Mullins, Department of Juvenile Justice; Tom Howard, Office of Financial Management and Economic Analysis; Terrell Ross, Ross Sinclair and Associates; Roger Peterman, Kentucky Interlocal School Transportation Association; Henry Reed, Kentucky School Boards Association; and Marilyn Eaton-Thomas, Kentucky Infrastructure Authority.

LRC Staff: Mary Lynn Collins, Pat Ingram, Lou Pierce, Lola Lyle, and Shawn Bowen.

Representative Damron made a motion to approve the minutes of the June 15, 1999 meeting as submitted. The motion was seconded by Representative Wayne and passed by voice vote.

Chairman Haydon reviewed correspondence items in members' folders, including the Kentucky Lottery Corporation's monthly financial status report for May 1999, and correspondence from Department of Parks Commissioner Kenny Rapier regarding the Parks Capital Maintenance and Renovation Fund. Also included in members' folders were project status reports by the Finance and Administration Cabinet, Murray State University, the University of Kentucky, and the University of Louisville.

Chairman Haydon said last month the Center for the Arts appeared before the Committee with a request for \$675,000 from the Capital Construction and Equipment Purchase Contingency Account to complete an Enhancement Project authorized by the 1998 General Assembly. The Committee opted at that time to approve only \$375,000 from the Contingency Account for the project, with the understanding that the Arts Center would use donations and pledges from the tobacco companies to make up the difference. Chairman Haydon said Mr. Michael Hardy, Executive Director for the Arts Center, in consultation with Secretary McCarty, asked to be on today's agenda to request reconsideration of the original request.

Mr. Hardy asked the Committee to restore the full amount of the Contingency Account allocation originally requested by the Center for its Enhancement Project, Phase I. He said none of the additional funds would be used for the smoking lobby; rather, to bring the smoking lobby portion of the project within budget, they scaled back the size of the lobby and saved \$400,000. He said they have certified to the Finance Secretary and to the Committee receipt of contributions and pledges totaling \$225,000 from the tobacco industry to be used towards the project, either to fund bid overruns in Phase I or to help fund Phase II of the project, which they hope to proceed with next year.

Representative Wayne said there was a misunderstanding and some confusion at the June meeting regarding this project. Since that time, he said he had consulted with staff and Mr. Hardy, and the issue has been clarified. He made a motion to approve the original request by the Arts Center for an allocation of \$675,000 from the Capital Construction and Equipment Purchase Contingency Account. Representative Wayne made the motion with the understanding that no contingency funds will be used for the smoking lobby and that donations and pledges received by the Arts Center from tobacco companies will be used for any additional overruns that occur in Phase I, subject to the Committee's consideration, or will be used as part of the funding package proposed for Phase II of the project. The motion was seconded by Senator Jackson and passed by voice vote. The revised project scope is \$5,175,000.

Next, Chairman Haydon introduced Secretary Allen Rose, Cabinet for Workforce Development, to discuss the Kentucky Electronic Workplace of Employment Services (KEWES) project. Secretary Rose thanked the Committee for the opportunity to discuss the KEWES project. He then introduced Commissioner Margaret Whittet, Department for Employment Services (DES), and Mr. Ron Holland, Director of Unemployment Insurance, DES.

Secretary Rose said the KEWES legislation, passed as Senate Bill 296 by the 1998 General Assembly, provided approximately \$10 million per year for three years for technology upgrades within DES. Secretary Rose said unemployment insurance taxes will not be raised and the \$30 million provided to DES over the next three years will improve

services to employers and job seekers, making Kentucky a model for the nation. He added that in order for Kentucky to have an adequate Unemployment Insurance Trust Fund, the trust fund should have a balance of \$600 million; currently, the trust fund is reported to be \$670 million.

Senator Leeper complimented Secretary Rose and his staff for working on Senate Bill 296 during the last legislative session. He asked Mr. Holland to further discuss the KEWES project.

Mr. Holland said letters describing the new KEWES project were sent to 79,000 business owners throughout the state. He said out of 79,000 letters sent, the Department received only five complaints.

Chairman Haydon asked if the Workforce Development Cabinet has a contract for the equipment necessary to administer the KEWES project. Mr. Holland said they have a contract for professional services, consulting, design, and business process reengineering; there is a separate cost over and above the contract cost for the purchase of software and hardware. Commissioner Whittet added that DES will spend \$6.8 million for design and implementation of the KEWES project.

In response to a question from Representative Wayne, Commissioner Whittet said the KEWES system has several benefits: 1) because DES staff will be working with fewer clients, staff will be able to better manage the workload; 2) through access to Kentucky's Information Highway, staff will be able to access information and work from any location; 3) work that is currently paper-based will be converted to electronic document management; 4) employers will be able to file taxes and wage reports electronically, access account information and download forms through the Internet, file a job order, and receive referrals directly; and 5) an unemployment insurance claimant will now be able to file a claim through the Internet or over the telephone. He said the system will eliminate the unemployment line.

Chairman Haydon asked how many people will have the ability to file a claim through the Internet. Mr. Holland said the percentage of people in Kentucky able to file an unemployment claim electronically is relatively small, and for this reason, DES has implemented a telephone claim system. The telephone claim system will last several years until Internet access increases. Commissioner Whittet said a claimant will still be able to come in the office and file a claim.

Representative Damron asked if there are any antifraud provisions built into the new KEWES system. Mr. Holland said as administrators of the program, the potential for fraud is a major concern to them. He said in talking to administrators in other states that have implemented telephone claim systems, they report the incidence of fraud has not

increased. He said the state has safeguards built into the system and they are comfortable that the fraud level will not increase; the Department will be monitoring the system very carefully.

Representative Damron said as opposed to maintaining the fraud level, he hopes the state can reduce unemployment fraud since it is spending \$20 million to implement a new system. Mr. Holland said by processing claims electronically and reducing paperwork, the Department will be able to reduce staff workloads, which in turn will allow staff to focus more on fraud detection and prevention.

In response to another question from Representative Damron, Commissioner Whittet said they will provide an annual report to the legislature and to the Committee analyzing the effectiveness of the KEWES project.

In response to questions from Senator Buford, Mr. Holland said KPMG, based in Montvale, New Jersey, is the contractor that was awarded the contract for design and implementation of the system. Mr. Holland said there were five bids for this project, and although he thought some of the bids were from Kentucky-based companies, he was not sure since he was not involved in the evaluation process.

Senator Buford asked if he could see the individual bids for the project. Commissioner Whittet said she would check on this and get back with him. Chairman Haydon asked staff to get copies of the KEWES project bids and share them with the Committee at its next meeting.

Chairman Haydon asked how client information will be kept confidential. Mr. Holland said the system will be accessed through the use of access numbers and personal identification numbers. By federal law, DES is charged with keeping client information confidential, if not, they risk losing federal tax credits for Kentucky employers, which amounts to \$500 million per year.

Chairman Haydon then introduced Mr. Bob Little, Vice President for Sales, Kentucky Lottery Corporation (KLC), and Mr. Mike Denney, Contract Administration, KLC, to discuss a request by KLC to lease instant ticket and pull tab vending machines.

Mr. Denney said KLC is requesting the Committee's approval to lease instant ticket and pull tab vending machines under a proposed contract with Interlott Technologies. The lease would be for a term of three years with an option to renew for two additional one-year terms; at the end of five years, KLC would have an option to purchase the equipment for \$1. Mr. Denney said during FY 2000, KLC plans to lease approximately 400 instant ticket vending machines and approximately 550 pull tab vending machines. Payments for the year are not expected to exceed \$700,000, which is

well below KLC's approved capital budget for the current biennium (\$6.8 million for instant ticket vending machines and \$4.6 million for pull tab vending machines).

Mr. Little said KLC's current machines were purchased in 1992, and they are now starting to deteriorate. In order to expand the retailer base and take advantage of new technology, KLC has decided to lease new machines rather than buy.

Representative Damron asked if KLC plans to replace all of its vending machines. Mr. Little said KLC has plans to replace 500 of its 750 instant ticket vending machines. The remaining older machines will be refurbished and moved to locations that do not have the sales volume warranted for a new machine. Mr. Little said KLC has approximately 1,100 pull tab vending machines, and they are planning to purchase 533 new ones.

In response to questions from Representative Damron, Mr. Little said the instant ticket vending machine is not a video lottery terminal; it is basically the same machine currently used to purchase instant ticket scratch off products. He said none of the machines will be placed at race tracks.

Representative Marcotte asked what precautions KLC takes to prevent purchase by minors of lottery tickets from vending machines. Mr. Little said there is a descriptive label placed by the coin mechanism on every machine that states it is illegal to purchase or sell lottery tickets to minors. He said KLC requires vending machines to be placed within line of sight of the customer service area or at the retail sales counter. Also, KLC recently implemented a three strike program: the first time a retailer is caught selling lottery products to minors, his license is suspended; a second offense is a termination of the owner's license; and after the third offense, KLC will take the retailer's license permanently.

In response to questions from Chairman Haydon, Mr. Little said KLC owns the equipment it is replacing; the equipment being replaced will be refurbished and reused, and any equipment left over will be surplus and sold for parts.

Mr. Denney added this is a long-term program and today's presentation is part of KLC's needs for FY 2000. He said they will be back at the Committee's pleasure next year to give a further update.

Representative Damron made a motion to approve KLC's request to lease instant ticket and pull tab vending machines. The motion was seconded by Senator Jackson and passed by voice vote. Representative Marcotte and Senator Buford requested that the record reflect their vote against the project. Representative Marcotte said he did not want

to encourage expansion of instant ticket sales where there is not absolute control of sales by an individual.

Representative Haydon then introduced Mr. Nick Schwendeman, General Manager for Facilities, Administrative Office of the Courts (AOC), to discuss a status report for the Warren County Judicial Center and a status report for ongoing court facility construction projects.

Mr. Schwendeman first introduced the Honorable Michael O. Buchanan, Warren County Judge Executive; Mr. Mike Caudill, Warren County Attorney; and Mr. Terrell Ross, Ross Sinclair and Associates, the fiscal agent for the Warren County court project.

Mr. Schwendeman said the Warren County Court project was authorized by the 1996 General Assembly. The project was authorized for \$20,840,000, with a maximum annual use allowance of \$1,517,152.

Mr. Schwendeman said the Facilities Unit of AOC works closely with the Court Facilities Standards Committee (CFSC). Meetings are held quarterly to review project status, and approval generally comes only after the projects have passed the review of the National Center for State Courts and the AOC Facilities Unit, and remain at or below the authorized use allowance. The Warren County project received the approval of the CFSC on August 19, 1996, and it was the intention of the county to use a construction manager and bid the project in phases. Since the total project costs would not be known until the last bid package had been awarded, the project was approved up to the amount of the authorized annual use allowance payment (\$1,517,152). Mr. Schwendeman said the minutes of the May 15, 1997 meeting of the CFSC reflect discussion that if bid packages come in over budget, it might be necessary for Warren County to request additional funding.

Mr. Schwendeman said during the course of the project there were several items beyond control of the construction manager and the county that impacted project costs. Those items include: 1) in the circuit clerk's area, an underslab raiseway was recommended, and later installed to enable flexibility in installing future cabling and telephone and data devices; 2) the courtroom floors were recessed to give flexibility in the layout of the courtroom litigation area; 3) a drug court was established for Warren County that necessitated the fit-up of office space; 4) a family court was established for Warren County that necessitated the fit-up of what was to be shelled space; 5) the finalization of the plans from the initial architect's plan to the final design or the final construction plans caused the space program to grow by approximately 2,000 square feet; 6) AOC requested, although not part of the original construction project, installation of phone and data cabling and security cabling; 7) during the last couple of phases that were

bid, there was a change in the prevailing wage determination for certain trades in 1997 that caused additional labor cost over and above the original estimates.

Mr. Schwendeman said since the project was bid in packages, there was no general contractor to guarantee price. The individual bid packages were being overseen by a construction manager. The above actions, primarily initiated by AOC, contributed an additional \$3.5 million to the project cost. Therefore, Warren County made a request to the CFSC for a 15% scope increase in the authorized use allowance and AOC approved that request.

Mr. Schwendeman then reported on five court facility construction projects (Boone, Christian, Harlan, and Harrison Counties, and possibly Warren County) that will need to be included for additional funding from the 2000 General Assembly.

Mr. Schwendeman said the Boone County Courthouse project was authorized by the 1998 General Assembly. The former architect and former administration failed to take into account the court caseload, the population growth in Boone County, and other factors. Consequently, the project, as currently authorized, is woefully inadequate. Additionally, Boone County has been approved for a family court not included in the original plans. Mr. Schwendeman said at the first of the year, the new county administration selected a new architect and they are now proposing to do the project in phases. Phase I would essentially meet Boone County's current needs. Based on the court caseload and population growth projections, Phase II may be needed within ten years.

Mr. Schwendeman then reported that the Christian County Courthouse project was authorized for a district court and a circuit clerk only, with circuit court space to be added later. Mr. Schwendeman said it is his intention to address issues relating to court facilities one time and to do it right the first time. He said AOC asked the county to look at the cost to include space for the circuit court, as well as a newly authorized family court, in the currently authorized project. The project was authorized by the 1998 General Assembly for \$9,560,800, but the scope has now increased to \$18 million. As a result of the additional court space, AOC staff will be meeting with the staff architect to see what can be done to reduce the scope.

Mr. Schwendeman said the Harlan County Courthouse project was originally proposed as a renovation of the existing courthouse and an addition, with a 58% occupancy ratio for county court space and 42% occupancy for county government. After a change in county administration, the county reported it could not pay its share of the project. Consequently, the project is now proposed as a separate building (requiring site acquisition) with 100% courts occupancy, which will nearly double the project scope.

Mr. Schwendeman said the Harrison County Court project is very similar to the Harlan County Court project. It had a 56% courts occupancy ratio, but it is now proposed as a separate building with 100% courts occupancy ratio.

Mr. Schwendeman reported there is a possibility that Warren County will request additional funding from AOC. He said they will be meeting with the county officials to determine the exact extent of that, based on the occupancy ratio and the finalized costs.

Representative Wayne asked how the prevailing wage was calculated as a factor in cost overruns for the Warren County project. Mr. David Butler, Construction Manager for Alliance Corporation, said the project budget was prepared based upon 1995 prevailing wage rates at the time. Project construction was bid in phases, and the first five or six phases were under the 1995 prevailing wage. In December 1997, a new prevailing wage was issued for Warren County, so the last three remaining bid phases were under the new prevailing wage determination.

In response to a question from Representative Wayne, Mr. Caudill said the increase in the prevailing wage was close to a \$1 million difference in the wage for electrical workers from the time the project started until they made the wage determination. He clarified that cited increased labor costs were not due to state implementation of the prevailing wage law, but a change in the region's prevailing wage.

Senator Jackson said the Warren County project was way over budget, and at this point, there is not a lot that can be done about it because the project is nearly complete. He said as legislators, they need to be more concerned about the court projects when funds are being appropriated, and as far as the Warren County court project, it needs to be finished in the most expeditious way possible. Senator Jackson said he and other members of the General Assembly are concerned as to how some of the court projects can be over budget so much.

Senator Jackson asked what the Committee can do to help AOC improve its planning process for court construction projects. Mr. Schwendeman said one thing AOC has done to improve the planning process is hire a staff architect; also, they are hiring a junior architect to work with the staff architect. Mr. Schwendeman said for each capital plan submitted to AOC, they sit down with the architect and the county officials to review their space program document to make sure it matches the National Center for State Courts' requirements. They review construction cost estimates, site development and acquisition costs, as well as all other cost components, and based on these more in-depth reviews, AOC's capital plan for the next legislative session should be more reflective of actual construction costs.

In response to a question from Representative Damron, Mr. Schwendeman said the Warren County Courthouse does not have a suite for the Supreme Court Justice. Mr. Buchanan added however, that there will be space available for the Justices' use.

Representative Damron noted the Committee has toured both the Jefferson County and the Kenton County Judicial Centers, both of which have a suite for the Supreme Court Justice. He described the buildings as opulent, particularly the suites for the Supreme Court Justices.

Representative Damron expressed concern with the extravagance of these courthouses, and said the AOC building program needs to be reviewed to better control project budgets. He pointed to the building program administered by the Finance and Administration Cabinet, which has much tighter controls.

Representative Damron said he could understand why the county judges say they cannot afford these extravagant courthouses; their taxpayers do not want to pay that kind of tax rate. He said he was open to hearing suggestions from AOC as to what changes need to be made, and suggested a meeting with representatives of the Finance and Administration Cabinet and the Governor's Office for Policy and Management to review their construction program.

Representative Damron said the 2000-2002 budget will be tight, the state is \$15 million short on revenue that was forecasted, so every dollar is going to be precious. He said every dollar that goes into the expansion of a court facility is a dollar that cannot be put into school bonds.

Senator Leeper asked what is the cost per square foot for the Warren County courthouse. Mr. Schwendeman said the cost per square foot for construction has ranged from \$125 to \$175 per square foot, and for purposes of AOC's Six Year Capital Plan, the cost per square foot was estimated at \$150-\$151 (including a 10% contingency). He said the estimates are very much in line, given the newly created circulation patterns and the security infrastructure that goes into these facilities.

In response to questions from Senator Leeper, Mr. Schwendeman said AOC does not have a set of criteria that sets a maximum cost per square foot. Once a courthouse project is approved, if the authorized use allowance supports an increase in the cost per square foot, AOC does not necessarily take issue with it. However, they do try to work with the counties to value engineer and reduce the costs in some instances.

Representative Wayne said based on the comments being made, it appears that more oversight and better planning is necessary on both the local and the state levels. He noted planning appears to be done at the local level where there may be minimal

accountability, and AOC needs more control over cost of the projects. He suggested the Finance and Administration Cabinet's capital construction program could be used as a model. He added that he thought the Committee would stand ready to help draft legislation that would serve the local communities and AOC better.

Senator Jackson said he appreciated the Warren County officials appearing before the Committee. For the court facility construction projects that are not yet complete, but appear to be far over budget, he suggested the Committee review those projects at its next meeting, including the projects' guidelines and how costs are controlled, as well as the square footage parameters and the building process at AOC. He then made a motion for the Committee to review court facility construction projects for Boone, Christian, Harlan, and Harrison Counties at its September 1999 meeting. The motion was seconded by Senator Leeper and passed by voice vote.

Representative Damron said the legislature was responsible for requiring court projects to meet the National Center for State Courts guidelines, and suggested those guidelines should be reviewed. He specifically questioned the guidelines requiring so much security. He noted the Kenton County facility has private elevators for judges that goes from the private parking area to office suites; there is an elaborate security system on the first floor. In addition, he said, thousands of dollars have been expended to bullet proof the bench area around judges.

Representative Marcotte said he shared many of Representative Damron's comments and views concerning this subject. He said when the Committee visited the Kenton County courthouse he was surprised to see all of the security. In response to a question from Representative Marcotte, Mr. Schwendeman said the Boone County courthouse will have the same security features, and noted those are based on both the National Center for State Court standards and AOC standards.

Senator Buford asked if any more cost overruns could be expected for the Warren County court project. Mr. Schwendeman and Mr. Caudill both indicated they did not anticipate any additional cost overruns for the Warren County project.

In response to comments made by Senator Buford, Mr. Schwendeman said AOC does not begin making use allowance payments until the facility is occupied. As a result, bonds must be sufficient to cover the capitalized interest, which is anywhere from 23% to 25% of the project cost.

Senator Buford noted that on the Warren County project, the construction manager had made a \$2.4 million error which led to a failure to reserve sufficient funds for capitalized interest. Senator Buford asked if there had been any discussion as to holding

the construction manager responsible for the error. Mr. Buchanan said if there is any legal remedy to recoup money, they will attempt to do so.

Senator Buford said one thing AOC may want to consider is prohibiting construction until project plans are complete. Mr. Buchanan agreed with Senator Buford; he said there is a lesson to be learned from Warren County's mistakes. He said the project was not bid fully before proceeding; it was bid in 20 different bids. Furthermore, the design was not complete before construction began. Mr. Butler further elaborating, said at the time the budget was established in May 1997, the design was in a very early schematic stage - single-line drawings, one page per floor of a four-story building. As the design was completed in stages, construction was also started in stages to parallel the design.

Chairman Haydon said Mr. Buchanan had raised some interesting points, and he asked him to put his concerns, as well as his experiences regarding construction of the Warren County court facility, in writing, and share them with the Committee and Mr. Schwendeman. Mr. Buchanan said mistakes were made and the project should have never proceeded when it did. He said Warren County had an enormous project and had not fully identified the scope of their commitments when the project began. He added that there are expenses involved in constructing a courthouse that do not exist in a typical school building.

Chairman Haydon noted that AOC had approved an allocation from the Court Facility Use Allowance Contingency Fund for Warren County which will increase the authorized use allowance by 15%. He said AOC is required to report allocations from the court contingency fund to the Committee, but no further action is required.

Next, Mr. Schwendeman discussed a status report for ongoing court projects. He said in the last six months, new facilities have been occupied in Jefferson, Kenton, and Hardin Counties, and the city of Richmond (district court building). Court facility construction is proceeding in Warren, Mason, and Fayette Counties. Webster County, originally authorized by the 1996 General Assembly, requested additional funding in 1998 and they are now meeting with AOC to review their finalized construction plans. He said the only project authorized by the 1998 General Assembly under construction is Lyon County; all others are in various stages of design.

Chairman Haydon thanked Mr. Schwendeman for his presentation. He said the Committee is concerned about court facility construction projects, and hopefully after further discussion, a solution can be found to better control the cost of constructing these court facilities.

Chairman Haydon then introduced Mr. Ken Clevidence, Senior Director, Procurement and Construction, Capital Projects Management Division, University of Kentucky (UK), to discuss a project report. Mr. Clevidence reported the University's purchase of a High Resolution STEM 400KV Electron Microscope and two additional microscopes. Mr. Clevidence said the equipment will be placed in the Center for Robotics and Manufacturing, and will be used to measure the strength of materials used in manufacturing, including automobiles. The cost of the equipment is \$1,828,900, and the source of funds includes: \$1,620,000 in grants and \$208,900 from the Office of Research and Graduate Studies (fund balances).

Chairman Haydon said purchases of research equipment are to be reported to the Committee, but no additional action is required.

Chairman Haydon then called on Mr. Bill Hintze, Deputy State Budget Director, Governor's Office for Policy and Management (GOPM), to discuss six projects submitted by the Finance and Administration Cabinet.

Mr. Hintze reported two allocations from the Emergency Repair, Maintenance, and Replacement Account. The first allocation, \$125,000, was to replace a roof at the Hazard Technical College. The second allocation, \$325,000, was made to replace the roof on the Wendell Building at Eastern State Hospital in Lexington.

Chairman Haydon said allocations from the Emergency Account must be reported to the Committee within 30 days of allocation, but no action is required.

Next, Mr. Hintze discussed an allocation of \$30,000 from the Capital Construction and Equipment Purchase Contingency Account for the John James Audubon State Park Golf Course Erosion project. He said \$300,000 was appropriated during the 1998 Session to address erosion problems with the golf course. The contingency allocation is needed to meet the low bid.

Representative Damron made a motion to approve the contingency allocation for the John James Audubon State Park Golf Course Erosion project. The motion was seconded by Representative Wayne and passed by voice vote. The revised project scope is \$330,000.

Mr. Hintze then discussed a \$25,000 federally funded scope increase for the Owensboro Community College Child Care Facility project. The project is experiencing a cost overrun because of change orders required primarily to address issues identified during inspections by the local health department.

Senator Buford made a motion to approve the \$25,000 federally funded scope increase for the Owensboro Community College Child Care Facility project. The motion was seconded by Representative Wayne and passed by voice vote. The revised project scope is \$690,000.

Mr. Hintze next reported a \$29,000 locally funded cost overrun for the General Butler State Park New Conference Center project. He said this project is a state-local partnership project, and the cost overrun will be funded by the Carrollton/Carroll County Recreation, Tourism and Convention Commission and will be used to upgrade building finishes.

Representative Damron made a motion to approve the cost overrun for the General Butler State Park New Conference Center project. The motion was seconded by Representative Marcotte and passed by voice vote. The revised project scope is \$2,759,330.

The final project Mr. Hintze discussed was a \$1,741,000 federally funded scope increase on a new maximum security juvenile detention facility in Adair County. Mr. Hintze said there is currently one juvenile detention center in the state, the Central Kentucky Treatment Center, and it has a myriad of problems. The 1998 General Assembly authorized construction of a new replacement facility for \$8,410,000.

Mr. Hintze said nine bids were received for this project, all of which were above the authorized project scope. He said after negotiations, the lowest bid was reduced by \$1,307,000 (bid by D.W. Wilburn). The Department of Juvenile Justice will cover the scope increase with 100% federal funds from the Violent Offender Incarceration Program.

Representative Damron asked how the proposed projects at the Northern Kentucky Youth Development Center and the Morehead Youth Development Center for Girls will be impacted by the decision to use \$1,741,000 in Violent Offender Incarceration Program funds for the new maximum security facility rather than on those programs. Mr. Hintze said he realized there were other needs but they had to act on the bids they had for this project. Mr. Mike Mullins, Director, Division of Administration, Department of Juvenile Justice, added that the Department used other Violent Offender Incarceration Program grant funds to construct a boot camp program and to upgrade security at the Northern Kentucky Youth Development Center.

Mr. Mullins said they were hoping to put all of the latest grant funds, \$1.7 million, into a major renovation project at the Morehead Youth Development Center for Girls. However, they have since determined federal rules would not permit them to use the entire grant on the Morehead project since it is a renovation with eight new bids, rather

than all new construction. Consequently, the Department thought it was best to use the entire amount for the new maximum security facility in Adair County. This project is the Department's number one priority, and has been for a number of years. Mr. Mullins said the Department is looking at other federal funding sources for the Morehead project.

Representative Damron asked if the Department had submitted a request to the Capital Planning Advisory Board to renovate the Morehead facility. Mr. Mullins said he thought the project was in the Department's Six Year Capital Plan.

In response to another question from Representative Damron, Mr. Mullins said the vast majority of the money for the Morehead project will be used for remodeling and refurbishing what is currently in place. The project includes renovation of two dorm facilities; addition of a new kitchen and equipment; and construction of a free standing multi-use building for education and recreational purposes.

Representative Damron asked if the eight-bed facility in Morehead will meet the needs of the state since there has been an increase in crimes committed by women. Mr. Mullins said they have not experienced any problems with a population increase among female offenders. He said the Morehead facility has been adequate; however, the new maximum security facility in Adair County will also contain a wing with 12-15 beds for females. He added there are some group homes in Morehead and there are also some private child care organizations that handle female offenders.

Chairman Haydon asked about the status of construction of the boot camp. Mr. Mullins said the 40-bed boot camp in Breathitt County is almost finished, and by October, the camp will probably start taking juveniles.

Representative Damron made a motion to approve the federally funded scope increase for the new maximum security facility in Adair County. The motion was seconded by Representative Marcotte and approved by voice vote. The revised project scope is \$10,151,000.

Chairman Haydon then called on Mr. Jim Abbott, Director, Division of Real Properties, to discuss a new lease contract. Mr. Abbott reported the Finance Cabinet's approval of an emergency lease for the Unified Prosecutorial System/Commonwealth Attorney's Office (PR-4436, Woodford County). He said the Commonwealth Attorney's Office will temporary lease 3,160 square feet from Mr. Jack Kain at an annual cost of \$23,700. The space will be leased temporarily until a competitive bid process for office space is complete and permanent housing can be found.

Chairman Haydon said no action is required for this lease.

Next, Mr. Tom Howard, Deputy Director, Office of Financial Management and Economic Analysis (OFMEA), presented three new bond issue reports: 1). State Property and Buildings Commission Revenue Refunding Bonds, Project #64 (\$128,500,000); 2). Kentucky Housing Corporation Housing Revenue Bonds, 1999 Series D, E, & F (\$40,000,000); and 3). Kentucky Asset/Liability Commission 1999 Road Fund Project Notes, First Series (\$201,000,000).

Representative Damron made a motion to approve the three new bond issues. The motion was seconded by Representative Marcotte and passed by voice vote.

Representative Marcotte asked if the interest rate increase by the Federal Reserve had any effect on the state's bond issues. Mr. Howard said interest rates rose prior to the action by the Federal Reserve, and since the Federal Reserve took preemptive action, interest rates have decreased. This has given some stability to the market and bodes well for next year for even lower interest rates.

Mr. Howard then presented six new School Facilities Construction Commission (SFCC) bond issues for Edmonson, Floyd, Harlan, Henderson, Pike, and Russell Counties, none of which required a tax increase.

Senator Leeper made a motion to approve the school bond issues with SFCC participation in debt service. The motion was seconded by Representative Marcotte and passed by voice vote. Because of a possible conflict of interest, Representative Damron abstained from the vote.

Chairman Haydon then introduced Mr. Terrell Ross of Ross, Sinclair, and Associates, and Mr. Roger Peterman and Mr. Henry Reed, Bond Counsels, representing the Kentucky Interlocal School Transportation Authority (KISTA) and the Kentucky School Boards Association (KSBA), to report on a proposed Credit Enhancement Reserve Program for school district bond issues.

Mr. Ross said his firm serves as financial advisor to a large number of schools in the state, and through working with Moody's Investor's Service, they have developed a credit enhancement program designed to provide an additional source of funds to pay bondholders should any participating school district fail to meet its debt service obligations. He explained that a pool of funds would be structured to provide additional time for a school to cure a default. For the first time, school districts participating in the program will include a debt service reserve. In addition, a surety bond or letter of credit arrangement will be provided. With these two elements, the program would be able to provide approximately 2.5 years of cure time for a default. He said they anticipate that Moody's and other rating agencies will elevate the ratings on school district bond issues with the new credit enhancement. Mr. Ross said an improved rating would mean

lower interest costs. He also noted that the pool's assets will increase over time, which could affect future bond ratings.

Mr. Ross said two agencies will sponsor this program - the Kentucky School Transportation Authority and the Kentucky School Boards Association. Peck, Shaffer & Williams will be used as bond and tax counsel; Henry M. Reed as the issuer's counsel; and Chapman & Cutler will serve as program review counsel. Mr. Ross said all elements, other than the letter of credit, are being competitively bid and all financial advisors can participate in the program. He said the program will primarily be effective for schools issuing \$10 million or less in paper per year because of federal rules. Mr. Ross estimated the program could result in an average savings of \$50,000-\$60,000 for schools that borrow approximately \$5 million per year.

Mr. Ross said he understands the Department of Education will support this program as long as the school bond rating is increased. He said they do not intend to bring this project to market unless there is an elevation in rating.

Chairman Haydon asked Mr. Ross to work with the Committee regarding the bond disclosure forms. Mr. Ross said they will do that. Each school will have an identification on the bond disclosure form as to whether it is participating in the program and disclosure will be made for all fees associated with the program.

Chairman Haydon said there were five locally funded school bond issues submitted to the Committee for review this month: Bellevue Ind. (Campbell Co.), Calloway Co., Clark Co., Danville Ind. (Boyle Co.), and Monticello Ind. (Wayne Co.). He said no further action on these bond issues was required.

Next, Ms. Marilyn Eaton-Thomas presented three new Kentucky Infrastructure Authority (KIA) projects: 1) an \$82,500 Fund E loan for the city of Ravenna; 2) a \$384,915 Fund C loan for the Jessamine South Elkhorn Water District; and 3) a \$605,641 Fund E loan for the Boyd County Fiscal Court.

In response to a question from Chairman Haydon, Ms. Eaton-Thomas said proceeds from the Fund E loan for Boyd County will be used to purchase equipment which will be leased to Dalton Tire Recycling (DTR). In response to a question from Representative Wayne, she said there is another tire shredding company in Owensboro, but the need of Owensboro Municipal Utilities is greater than either company could provide.

Representative Damron made a motion to approve the three new KIA projects. The motion was seconded by Representative Marcotte and passed by voice vote.

The last item Ms. Eaton-Thomas discussed was a request by the Paducah-McCracken County Joint Sewer Agency (JSA) to assume all the assets and liabilities for the five outstanding KIA loans, totaling \$8,864,329. The JSA is a newly formed agency that joins together the current wastewater systems in McCracken County, which includes the city of Paducah, the city of Lone Oak, McCracken County Sanitation District Nos. 1 & 4, and Reidland Sewer District.

Chairman Haydon said this is an information item and no further action is required.

Chairman Haydon said included in members' folders were two information items: a staff overview/update on plans for restoration and renovation of the Capitol Building and a report on state bonded indebtedness, prepared by LRC Staff Economists.

Chairman Haydon said the Committee's next meeting is scheduled for Tuesday, August 17 at 9:30 a.m., at the University of Kentucky William T. Young Library.

With there being no further business, Senator Buford made a motion to adjourn the meeting. The motion was seconded and passed by voice vote. The meeting adjourned at 3:00 p.m.